

First forum on paycheck security issues. He thoroughly debunks the lobbyist-driven myths that repealing this \$2.2 billion U.S. jobs export subsidy will somehow prevent large U.S. multinational firms from competing in the global economy. I think that you will find his testimony provides an excellent perspective on this subject, and I hope that you will read it.

I ask that the text of Mr. McIntyre's recent testimony be printed in the RECORD.

The material follows:

STATEMENT OF ROBERT S. MCINTYRE, DIRECTOR, CITIZENS FOR TAX JUSTICE, IN SUPPORT OF LEGISLATION TO CURB TAX SUBSIDIES FOR EXPORTING JOBS

Citizens for Tax Justice strongly supports legislation to limit current federal tax deferrals that subsidize the export of American jobs. Such reform legislation is embodied in S. 1355, Senator Byron Dorgan's "American Jobs and Manufacturing Preservation Act." Similar legislation has been approved by the House of Representative in the past. We urge the full Congress to pass S. 1355 and send it to the President to sign.

TAX BREAKS FOR EXPORTING JOBS SHOULD BE ELIMINATED—WE SHOULDN'T PAY OUR COMPANIES TO MAKE GOODS FOR THE AMERICAN MARKET IN FOREIGN COUNTRIES

In its 1990 annual report, the Hewlett-Packard company noted: "As a result of certain employment and capital investment actions undertaken by the company, income from manufacturing activities in certain countries is subject to reduced tax rates, and in some cases is wholly exempt from taxes, for years through 2002." In fact, said Hewlett-Packard's report, "the income tax benefits attributable to the tax status of these subsidiaries are estimated to be \$116 million, \$88 million and \$57 million for 1990, 1989 and 1988, respectively."

This is not an isolated instance. An examination of 1990 corporate annual reports that we undertook a few years ago provided the following additional examples.¹

Footnotes at end of article.

Baxter International noted that it has "manufacturing operations outside the U.S. which benefit from reductions in local tax rates under tax incentives that will continue at least through 1997." Baxter said that its tax savings from these (and its Puerto Rican) operations totaled \$200 million from 1988 to 1990.²

Pfizer reported that the "[e]ffects of partially tax-exempt operations in Puerto Rico and reduced rates in Ireland" amounted to \$125 million in tax savings in 1990, \$106 million in 1989 and \$95 million in 1988.

Schlering-Plough said that it "has subsidiaries in Puerto Rico and Ireland that manufacture products for distribution to both domestic and foreign markets. These subsidiaries operate under tax exemption grants and other incentives that expire at various dates through 2018."

Becton Dickinson reported \$43 million in "tax reductions related to tax holidays in various countries" from 1988 to 1990.

Beckman noted: "Certain income of subsidiaries operating in Puerto Rico and Ireland is taxed at substantially lower income tax rates," worth more than \$7 million a year to the company over the past two years.

Abbot Laboratories pegged the value of "tax incentive grants related to subsidiaries in Puerto Rico and Ireland" at \$82 million in 1990, \$79 million in 1989 and \$76 million in 1988.

Merck & Co. noted that "earnings from manufacturing operations in Ireland [were]

exempt from Irish taxes. The tax exemption expired in 1990; thereafter, Irish earnings will be taxed at an incentive rate of 10 percent."

In fact, under current law, American companies often are taxed considerably less if they move their manufacturing operations to an overseas "tax haven" such as Singapore, Ireland or Taiwan, and then import their products back into the United States for sale.

HOW WE SUBSIDIZE THE EXPORT OF AMERICAN JOBS

The tax incentive for exporting American jobs results from current tax rules that:

1. allow companies to "defer" indefinitely U.S. taxes on repatriated profits earned by their foreign subsidiaries; and
2. allow companies to use foreign tax credits generated by taxes paid to non-tax haven countries to offset the U.S. tax otherwise due on repatriated profits earned in low- or no-tax foreign tax havens.

S. 1355 WOULD END THIS WRONG-HEADED SUBSIDY

Why should the United States tax code give companies a tax incentive to establish jobs and plants in tax-haven countries, rather than keeping or expanding their plants and jobs in the United States? Why should our tax code make tax breaks a factor in decisions by American companies about where to make the products they sell in the United States?

Why indeed? We believe that this tax break for overseas plants should be ended. Profits earned by American-owned companies from sales in the United States should be taxed—whether the products are Made in the USA or abroad.

S. 1355 would end the current tax break for exporting jobs—by taxing profits on goods that are manufactured by American companies in foreign tax havens and imported back into the United States. It would achieve this result by (1) imposing current tax on the "imported property income" of foreign subsidiaries of U.S. corporations; and (2) adding a new separate foreign tax credit limitation for imported property income earned by U.S. companies, either directly or through foreign subsidiaries.³

legislation identical to S. 1355 was passed by the House in 1987. Unfortunately, at that time the reform provision was dropped in conference at the insistence of the Reagan administration.

SPURIOUS ARGUMENTS AGAINST CURBING SUBSIDIES FOR EXPORTING JOBS

Of course, Congress has heard loud complaints from lobbyists for companies that benefit from the current tax breaks for exporting jobs. Some have apparently argued that their companies will be at a competitive disadvantage in foreign markets if this legislation were approved. But since the bill applies only to sales in U.S. markets, that argument makes no sense.

Lobbyists also have asserted that if American multinationals have to pay U.S. taxes on their profits from U.S. sales for foreign-made goods, they might be disadvantaged compared to foreign-owned companies selling products in the United States. Perhaps. But as the House concluded in 1987, it would be far better "to place U.S.-owned foreign enterprises who produce for the U.S. market on a par with similar or competing U.S. enterprises" rather than worrying about "placing them on a par with purely foreign enterprises."⁴

Finally, lobbyists have made the spurious point that overall, foreign affiliates of U.S. companies have a negative trade balance with the United States, that is, they move more goods and services out of the United States than they export back in. To which, one might answer, so what?

After all, S. 1355 does not deal with all foreign affiliates of U.S. companies. Rather, it deals only with U.S.-controlled foreign subsidiaries that produce goods for the American market in tax-haven countries.⁵ When U.S. companies shift what would otherwise be domestic production to these foreign subsidiaries it most certainly does not improve the U.S. trade balance; it hurts it.⁶

CONCLUSION

American companies may move jobs and plants to foreign locations in order to make goods for the U.S. market for many reasons—such as low wages or lack of regulation—that the tax code can do little about. But we should not provide an additional inducement for such American-job-losing moves through our income tax policy.

American multinationals should pay income taxes on their U.S.-related profits from foreign production. Such income should not be more favorably treated by our tax code than profits from producing goods here in the United States. We urge Congress to approve the provisions of S. 1355.

¹Several of the companies mentioned here apparently have been lobbying hard against S. 1355.

²Many companies do not separate the tax savings from their Puerto Rican and foreign tax-haven activities in their annual reports.

³"Imported property income means income . . . derived in connection with manufacturing, producing, growing, or extracting imported property; the sale, exchange, or other disposition of imported property; or the lease, rental, or licensing of imported property. For the purpose of the foreign tax credit limitation, income that is both imported property income and U.S. source income is treated as U.S. source income. Foreign taxes on that U.S. source imported property income are eligible for crediting against the U.S. tax on foreign source imported property income. Imported property does not include any foreign oil and gas extraction income or any foreign oil-related income.

"The bill defines 'imported property' as property which is imported into the United States by the controlled foreign corporation or a related person." House Committee on Ways and Means, "Report on Title X of the Omnibus Budget Reconciliation Act of 1987," in House Committee on the Budget, Omnibus Budget Reconciliation Act of 1987, House Rpt. 100-391, 100th Cong., 1st Sess., Oct. 26, 1987, pp. 1103-04.

⁴Id.

⁵Companies that manufacture abroad in non-tax-haven countries generally would not be affected by the bill, since they still will get foreign tax credits for the foreign taxes they pay.

⁶Foreign affiliates of U.S. companies that produce goods for foreign markets—not addressed by Senator Dorgan's bill—may well have a negative trade balance with the United States, insofar as they transfer property from their domestic parent to be used in overseas manufacturing. But it would obviously be far better for the U.S. trade balance—and for American jobs—if those final products were manufactured completely in the United States and exported abroad, rather than having much of the manufacturing process occur overseas. To assert that foreign manufacturing operations by American companies helps the U.S. trade balance is to play games with statistics.

For example, suppose an American company was making \$100 million in export goods in the U.S. for foreign markets. Now, suppose it moves the assembly portion of that manufacturing process overseas, where half the value of the final products is produced. At this point, instead of \$100 million in exports, there are only \$50 million. America has thus lost exports and jobs—even though the foreign affiliate itself has a negative trade balance with the United States. For better or worse, however, S. 1355, does not address this situation.●

THE RUSSIAN ELECTIONS

Mr. LEAHY. Mr. President, on June 16, something happened that has tremendous implications for the American people and for people everywhere. On that day, Russia, which just a few years ago was the greatest threat to democracy in the world, held a democratic election to select its President.

That alone, Mr. President, is reason to celebrate. Despite calls from people across the Russian political spectrum who still do not understand what democracy is about to cancel the election, the Russian government stuck by its commitment to democracy—

No decisions were taken by secretive Politburos.

Parties representing the full spectrum of political sentiment participated. Candidates crisscrossed that vast country making promises to win the votes of ordinary people.

And in the end, most stunning of all, there was a graceful concession speech by the losing candidate, the leader of the Communist party that only a little while ago we regarded as the personification of tyranny, committing the party to challenge irregularities in the election "in the courts, not in the streets."

Mr. President, this was not a perfect election. There were irregularities. There may well have been instances of ballot box stuffing. I was quite concerned about the extent to which media coverage of the election appeared to favor one candidate. But it also occurred to me that, if I were a newspaperman covering an election in which one major party had a record of advancing democracy and the freedoms associated with it and the other had a 70-year history of suppressing the freedom of newspapers like mine, I might have tended to advocacy rather than neutrality too. That is not an excuse, but despite the irregularities, there is general agreement that the will of the Russian people was heard in this election.

The Russian people voted for democracy, and the tremendous significance of that should not be lost on anyone. Despite all of the hardship they are experiencing. Despite the crime and corruption. Despite their loss of empire. Despite the fact that the standard-bearer of the forces of democracy has made many mistakes, the brutal war in Chechnya being the most egregious, and is in poor health.

The Russian people voted for freedom. Freedom to speak their minds. Freedom to associate. As ultra-nationalist Vladimir Zhirinovsky, who is not someone I admire, put it in explaining why he would not support the communists: freedom to decide where to spend his vacation. For some, it came down to things as simple as that, things which we take for granted.

Mr. President, the world has changed profoundly in the last decade. Communism as a world force is gone. Whatever the future may bring in terms of the distribution of power in the world, the age of ideological confrontation between communism and democracy is over. While there remain many aggressive forces in the world, I cannot help but feel that the world will be a safer place when its two greatest powers are both committed to democracy and the protection of individual rights.

And I think we owe credit to President Clinton, Secretary of State Chris-

topher, and Deputy Secretary Talbott. Over the past 3 years, they have braved the attacks by those, including some in this chamber, who cannot bring themselves to give up their cold war notions about evil empires and would have us focus only on the vestiges of the old and ugly in Russia and ignore all that is new and promising.

Where do we go from here? As the ranking member of the Foreign Operations Subcommittee, I have watched as funding for foreign assistance has been slashed over the past 18 months, including assistance to Russia. Assistance to Russia is being phased out over the next 2 years, even though it is obvious that it is going to take the Russian people at least another decade to be able to take control of their own lives instead of expecting the government to do it for them, and that our assistance would be valuable to them.

President Yeltsin has won the support of his people to continue reform. But the Russian economy remains a shambles. The Russian Government has no money to finance its reforms. Crime is rampant. There are still pensioners on the streets of Moscow hawking pairs of children's rubber boots in order to survive.

Aid from the United States cannot possibly solve these problems directly. The problems are so immense that only the Russian people working together will be able to.

But what our aid can do is show them the way. Most Russians still have only a faint notion of what a market economy offers. Most also still carry the perceptions drilled into them by their Soviet masters that Americans are their enemies.

I have not been fully satisfied with the results of our aid program in Russia. There has been confusion, a lack of strategic thinking, and boilerplate approaches that did not fit the unique conditions there. Too much of the money has ended up in the pockets of American contractors, without enough to show for it.

But some programs have given the Russian people hope for a better future. People-to-people exchanges are an example of how we can help change old ways of thinking. I believe the thousands of exchanges of ordinary citizens that we have sponsored over the last 4 years played a role in President Yeltsin's victory. Farmer-to-farmer programs. Business exchange programs. Academic exchange programs. Civic organization development projects. They have shown the Russian people what is possible.

Americans have learned from these exchanges too. We have learned that the Russian people are not ogres. Like us, they are mostly worried about the welfare of their families. But they are learning for the first time that it is possible to have a system of government whose primary aim is the defense of individual rights, and which actually serves them.

Mr. President, there remains much to criticize in Russia. The democracy that

exists there is fragile, and the future unpredictable. The future is far from predictable. There will continue to be setbacks, and instances when Russia behaves in ways that are inconsistent with international norms. I have been horrified by the brutality of the Russian military in Chechnya. While it has been reassuring to see the outpouring of protest against this barbarity by the Russian people themselves, President Yeltsin and his security advisors need to recognize that Chechnya's future is not going to be decided by bombing its people into submission.

Having said that, let us today recognize how much has changed for the better in Russia compared to just a few years ago. And I hope we will also reaffirm our commitment to support reform in Russia. We know how to put our aid dollars to good use there, and there is much good yet to be done.●

YEAR-ROUND SCHOOLS

Mr. SIMON. Mr. President, recently a friend of mine, Gene Callahan, sent me an editorial from the Evansville Courier suggesting that Evansville look at year-round schools.

The reality is the whole Nation should do that.

We take the summer months off, in theory, so that our children can go out and harvest the crops. That made sense a century ago and maybe even 60 years ago, but it does not make sense today.

If we increased the school year from 180 days to 210, we would still be far behind Japan's 243 days and Germany's 240 days. And simply adding that 30 days would mean the equivalent of 2 additional years of school by the time the 12th grade is finished. But in reality it would be more than that. Any fourth grade teacher will tell you that part of the first weeks of teaching in the fourth grade is revisiting what students learn in the third grade. The three month lapse makes it more difficult for students starting in the fourth grade.

But suggesting year-round schools is not going to be simple. We will have to pay teachers more. We will have to air condition school rooms. In essence, what we will have to do is to make the priority out of education that we must, if we are to be a competitive Nation with the rest of the world.

One not so incidental result of that would be that our students would be better prepared, we would gradually reduce our illiteracy rate, and because students will have more opportunity upon graduation and would not be in the streets in the summer months, the crime rate is likely to drop some. The drop is not likely to be dramatic, but it would help.

I commend the editors of the Evansville Courier.

Mr. President, I ask that the editorial from the Courier be printed in the RECORD.

The editorial follows: